

REVIEW OF  
FEDERAL TECHNOLOGY SERVICE'S  
CLIENT SUPPORT CENTER CONTROLS  
AND TESTING OF CONTROLS  
MID-ATLANTIC REGION  
REPORT NUMBER A050009/T/3/Z05016

MAY 18, 2005



DATE: May 18, 2005

REPLY TO

ATTN OF: Mid-Atlantic Region Field Audit Office (JA-3)

SUBJECT: Review of Federal Technology Service's Client Support Center  
Controls and Testing of Controls – Mid-Atlantic Region  
Report Number A050009/T/3/Z05016

TO: Jon R. Kvistad  
Acting Regional Administrator (3A)

Barbara L. Shelton  
Acting Commissioner, Federal Technology Service (T)

This report presents the results of the Office of Inspector General's review of the Federal Technology Service (FTS) Client Support Center (CSC) in the Mid-Atlantic Region (Region 3). The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375) directed the Inspectors General of the General Services Administration (GSA OIG) and the Department of Defense (DOD OIG) to jointly perform a review of each FTS CSC and determine whether each CSC is compliant, not compliant, or not compliant but making significant progress, with Defense procurement requirements.

### **Objectives, Scope and Methodology**

To review the adequacy of policies, procedures, and internal controls in each CSC, we analyzed a random sample of procurement actions executed between August 1, 2004 through October 31, 2004. We also analyzed a judgmental sample of existing orders and the steps taken to remediate any past problems in these existing orders. For the Mid-Atlantic CSC, our sample included nine new awards and two existing orders, valued at \$4.7 million and \$40.5 million, respectively. The audit was conducted between October 2004 and March 2005, in accordance with generally accepted Government auditing standards.

## Results of Audit

We determined the Region 3 CSC to be not compliant but making significant progress. The Region has implemented national controls identified in the Administrator's "Get it Right" Plan, and has improved its overall contracting practices, compared with our past audit findings. For example, we found all orders to be in compliance with the requirements of Section 803 of the National Defense Authorization Act for Fiscal Year 2002. However, we did find that the nine new orders had a common procurement compliance deficiency that does not represent a potential financial impact. We also identified one order that involved a non-Information Technology (IT) procurement through the IT fund. Lastly, in our review of existing orders, we found the remediation progress inadequate to address deficiencies found in our prior review. As directed in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, because the CSC is not fully compliant, we are required to perform a subsequent audit of CSC contracting practices by March 2006 to determine whether the CSC has become compliant.

Procurement Compliance Deficiency with No Potential Financial Impact. Our review of the nine new orders determined that none contained an Interagency Agreement. This situation resulted from guidance contained in a memo issued by the FTS Central Office and the GSA Chief Financial Officer that may not have provided sufficient clarification regarding what was required. This conflict was recognized and taken into consideration when evaluating these orders. The Mid-Atlantic CSC's position is that it complied with the guidance via the use of the customer agency's funding document combined with FTS' acceptance of that funding. However, while this documentation represents a validly recorded obligation, it does not meet the requirements of a reimbursable agreement as outlined in the FTS Central Office guidance. Reimbursable agreements must include a clear, concise statement identifying the requesting agency's specific need and clearly establishing the financial arrangements between the requesting agency and FTS. The reimbursable agreement provides written documentation to ensure there is a formal offer and acceptance between the federal agency and FTS.

Other Procurement Compliance Deficiency. We identified one order, valued at approximately \$295,000, which involved the use of the IT fund for the procurement of tow banners (used in target practice for fighter pilots). We determined that these banners were not IT-related. Therefore, the IT fund should not have been used for the funding of this procurement.

Inadequate Remediation Progress for Existing Orders. Our review of two existing orders, which were cited for deficiencies in our initial report, found the remediation actions to be inadequate.

- A \$17 million schedule order for operations support, in our initial report, was cited for the lack of (1) an Acquisition Plan and (2) FTS oversight of contractor billings. Our review determined no additional analysis was conducted to ensure the appropriateness of the procurement, in light of the absence of an Acquisition

Plan. Additionally, while the Region 3 CSC is currently involved in developing a process for ensuring the accuracy of contractor billings, no process has yet been implemented. CSC officials stated that this task order is due to terminate as of April 30, 2005.

- A \$24 million order to provide life-cycle support for an information system, in our initial report, was cited for the lack of (1) a Determinations and Findings document and (2) FTS oversight of contractor billings. While the Region 3 CSC is currently involved in developing a process for ensuring the accuracy of contractor billings, we determined that no formal process has yet been implemented. CSC officials stated that this task order is due to terminate as of April 30, 2005.

## **Conclusion**

While not fully compliant, we found that the Mid-Atlantic Region CSC has made significant progress in implementing controls to ensure compliance with procurement regulations. The CSC has implemented national controls identified in the Administrator's "Get It Right" Plan and improved its overall contracting practices. However, we did find procurement compliance deficiencies in nine new orders. We also identified one order that utilized the IT Fund for the procurement of a non-IT commodity. Lastly, we determined the remediation actions on two existing orders were inadequate. As stated in our January 2004 report on the FTS CSCs, we believe that steps to remedy the CSC procurement problems require a comprehensive, broad-based strategy that focuses on the structure, operations and mission of FTS as well as the control environment. Based on the comprehensive recommendations contained in that report, no further overall recommendations are deemed necessary at this time.

## **Management Comments**

In his response, the Acting Regional Administrator acknowledged the issues raised in the draft report and submitted some remedial actions taken by the FTS Mid-Atlantic Region designed to address those issues. Management's response is included in its entirety as Attachment 1 to this report.

## **Internal Controls**

We assessed the internal controls relevant to the CSC's procurements to assure that the procurements were made in accordance with the Federal Acquisition Regulations and the terms and conditions of the contracts utilized. While we have seen substantial improvements in internal controls, FTS will need to continue its commitment to the "Get It Right" initiatives and to implementation of effective controls over procurement processes to ensure full compliance by March 2006.

If you have any questions regarding the report, please contact Stephen J. Ehinger, or me, at (215) 446-4840.



James M. Corcoran  
Audit Manager  
Mid-Atlantic Region

Attachments

## MANAGEMENT COMMENTS



May 2, 2005



GSA Mid-Atlantic Region

MEMORANDUM FOR GLENN D. MERSKI  
REGIONAL INSPECTOR GENERAL FOR  
AUDITING (JA-3)

FROM: JON R. KVISTAD *[Signature]*  
for ACTING REGIONAL ADMINISTRATOR (3A)

SUBJECT: Draft Report: Review of FTS Client Support Center Controls and  
Testing of Controls – Mid-Atlantic Region Report Number  
A050009

After reviewing the subject draft report, I submit the following comments.

1. "Procurement Compliance Deficiency with No Financial Impact"

All nine of the cited task orders were documented in reliance upon particular CFO guidance of June 7, 2004, which states, "As another form of reimbursable agreement, FTS accepts the requesting agency's funding document which identifies the requirements in either the funding document or a referenced attachment". FTS Mid-Atlantic Region management concluded the nine orders identified the agency's specific need and clearly established the financial arrangements consistent with that guidance. As you noted, the CFO guidance may not have provided sufficient clarity on what was required. In an ongoing effort to conform to appropriate guidance and information, FTS Mid-Atlantic Region associates will employ reimbursable agreements that include a clear, concise statement of the requesting agency's need, clearly establish the financial arrangements between GSA and the requesting agency, and incorporate financing and supporting data.

2. "Other Procurement Compliance Deficiency"

The auditors have determined the procurement of tow banners for fighter pilot training were not IT related. In reliance upon a previous definition of IT by the FTS Solutions Development Center and FTS Central Office, FTS Mid-Atlantic Region management made a judgment that the tow banners were properly IT related. Consistent with advice provided at the April 25, 2005 "Get It Right" session, our contracting officers will manage risk by using available guidance and information, the FTS chain of command and legal counsel. FTS Mid-Atlantic Region associates endeavored to use such a risk management process in their determination that the tow banners were IT related.

MANAGEMENT COMMENTS

3. "Inadequate Remediation Progress for Existing Orders"

The auditors found the remediation to be inadequate for two task orders. The two task orders in question were due to expire on April 30, 2005. The task orders were appropriately awarded. We are engaged in an ongoing effort to take appropriate remediation on existing task orders. Appropriate acquisition plans and determination-and-finding documents are now being prepared on all new actions, when required.

Regarding oversight of contractor billings, FTS Mid-Atlantic Region has used a disciplined approach to arrive at the most efficient and effective process of reviewing contractor billings. They performed a statistical analysis of past billings to help them design a process that would not waste taxpayer dollars. FTS Mid-Atlantic Region identified four options and is currently implementing the most efficient option.

If you have any questions, please contact Mr. Paul McDermott of my staff at 215-446-5831.

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